

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Chairman;
Tony Hammond, Vice Chairman;
Mark Acton; and
Nanci E. Langley

Competitive Product Prices
First-Class Package Service Contract 75 (MC2017-109)
Negotiated Service Agreements

Docket No. CP2017-156

ORDER APPROVING AMENDMENT ONE TO
FIRST-CLASS PACKAGE SERVICE NEGOTIATED SERVICE AGREEMENT

(Issued July 10, 2018)

I. INTRODUCTION

The Postal Service seeks to amend a First-Class Package Service negotiated service agreement.¹ For the reasons discussed below, the Commission approves the Amendment.

In Order No. 3857, the Commission approved the First-Class Package Service Contract 75 negotiated service agreement (Existing Agreement).² On June 29, 2018, the Postal Service filed notice that it has agreed to the Amendment to the Existing

¹ USPS Notice of Amendment to First-Class Package Service Contract 75, Filed Under Seal, June 29, 2018 (Notice). The amendment is an attachment to the Notice (Amendment).

² See Docket Nos. MC2017-109 and CP2017-156, Order Adding First-Class Package Service Contract 75 to the Competitive Product List, April 17, 2017 (Order No. 3857).

Agreement. On July 2, 2018, the Commission issued a notice reopening this docket to consider the Amendment, appointing a Public Representative, and providing interested persons with an opportunity to comment.³

The Postal Service intends for the Amendment to become effective two business days after the date that the Commission completes its review of the Notice. Notice at 1. The Postal Service filed supporting financial documentation and a certified statement, as required by 39 C.F.R. § 3015.5. *Id.*

II. COMMENTS

The Public Representative filed comments on July 9, 2018.⁴ No other interested person submitted comments. The Public Representative reviewed the Amendment, the Existing Agreement, and the financial model filed under seal. PR Comments at 1. Based on that review, he concludes that the Existing Agreement, as amended, should continue to generate sufficient revenue to cover costs and satisfy 39 U.S.C. § 3633(a). *Id.*

III. COMMISSION ANALYSIS

The Commission has reviewed the Notice, the accompanying materials filed under seal, and the comments filed by the Public Representative.

Cost considerations. The Commission reviews competitive product prices to ensure that each product covers its attributable costs, does not cause market dominant products to subsidize competitive products, and contributes to the Postal Service's institutional costs. 39 U.S.C. § 3633(a); 39 C.F.R. §§ 3015.5 and 3015.7. As long as the revenue generated by the product exceeds its attributable costs, the product is unlikely to reduce the contribution of competitive products as a whole or to adversely

³ See Docket No. CP2017-156, *et al.*, Notice Initiating Docket(s) for Recent Postal Service Negotiated Service Agreement Filings, July 2, 2018.

⁴ Public Representative Comments on Postal Service Notice of Change in Prices Pursuant to Amendment to First-Class Package Service Contract 75, July 9, 2018 (PR Comments).

affect the ability of competitive products as a whole to contribute an appropriate share of institutional costs. In other words, if a product covers its attributable costs, it is likely to comply with 39 U.S.C. § 3633(a).

The Amendment revises the types of First-Class Packages receiving contract prices, revises the implementation of tiered pricing, and revises the negotiated rates. Notice, Attachment A at 1-3. The Amendment also revises the annual price adjustment terms, adds an article relating to record keeping and audit, and extends the contract an additional two years. See *id.* at 3-4.

Based on a review of the record, the Commission finds that the Existing Agreement, as amended, should cover its attributable costs. 39 U.S.C. § 3633(a)(2). For this reason, it finds that the Existing Agreement, as amended, should not result in competitive products as a whole being subsidized by market dominant products, in accordance with 39 U.S.C. § 3633(a)(1). Similarly, it finds the Existing Agreement, as amended, is unlikely to prevent competitive products as a whole from contributing an appropriate share of institutional costs, consistent with 39 U.S.C. § 3633(a)(3). See *also* 39 C.F.R. § 3015.7(c). Accordingly, a preliminary review of the Amendment indicates it is consistent with section 3633(a). The annual rate adjustment provision in section I.H. of the Existing Agreement, as amended, should allow its revenues to cover costs for the duration of its term. Notice, Attachment A at 3. The Commission will continue to review the cost coverage of the Existing Agreement, as amended, in its Annual Compliance Determination to ensure that rates cover costs.

Other considerations. The Postal Service states that the Amendment shall become effective two business days after the date that the Commission completes its review. Notice at 1. The Existing Agreement, as amended, is set to expire April 18, 2022.⁵

⁵ See Notice, Attachment A at 4 (setting expiration date five years from effective date of contract); Order No. 3857 at 9 (showing effective date of April 17, 2017).

If the Existing Agreement, as amended, is terminated prior to the scheduled expiration date, the Postal Service shall promptly notify the Commission.

In conclusion, the Commission approves the Existing Agreement, as amended.

IV. ORDERING PARAGRAPHS

It is ordered:

1. The Commission approves the First-Class Package Service Contract 75 negotiated service agreement, as amended.
2. The Postal Service shall notify the Commission if the Existing Agreement, as amended, terminates prior to the revised expiration date, April 18, 2022.

By the Commission.

Stacy L. Ruble
Secretary